

## Message Text

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ACTION EA-09

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EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 4480

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C O N F I D E N T I A L SECTION 1 OF 3 SEOUL 4941

EO 11652:GDS

TAGS: ETRD EINV KS

SUBJ: BACKGROUND INFORMATION FOR THE EIGHTH KOREA-US COMMERCE  
MINISTER'S MEETING

REF: STATE 104477

SUMMARY: TOPICS LISTED IN REFTEL AS POSSIBLE SUBJECTS  
AT EIGHTH US-KOREA COMMERCE MINISTER'S MEETING HAVE BEEN  
REVIEWED AND UPDATED AS INDICATED BELOW.

A) TARIFF REFORM A ROKG PROPOSAL FOR THE INTRO-  
DUCTION OF A UNIFORM IMPORT TARIFF RATE OF 20 PCT WAS  
DISCUSSED IN 76 SEOUL 7307 AND IMPLMENTATION ANNOUNCED  
IN SEOUL 0329, 14 JANUARY 1977. THE REFORM IS AIMED  
AT SIMPLIFYING AND MODERNIZING KOREA'S TARIFF SYSTEM.  
TARIFF CATEGORIES HAVE BEEN REDUCED FROM 17 TO 11 BUILT  
AROUND A CENTRAL OF "UNITARY RATE," INITIALLY SET AT 20  
PCT. LOWER RATES ARE PROVIDED FOR SPECIAL TREATMENT  
IMPORTS WHILE HIGHER RATES ARE MAINTAINED EITHER FOR  
PROTECTION OF DOMESTIC INDUSTRY OR TO DISCOURAGE  
IMPORT OF NON-ESSENTIAL OR LUXURY GOODS. FURTHER  
CHANGES ARE PROGRAMMED TO OCCUR OVER THE FIVE YEAR  
PERIOD, 1977-1981. A DETAILED REPORT ON THE CURRENT  
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ROKG TARIFF REFORM AND AN ANALYSIS OF THE IMPACT ON  
US EXPORTS IS NEARLY COMPLETED AND WILL BE FORWARDED  
NEXT WEEK.

(B) THE CURRENT TRADE PLAN - THE TRADE PLAN FOR  
THE SECOND HALF OF 1977 WAS ANNOUNCED JUNE 1, WITH  
AN EFFECTIVE DATE OF JULY 1. THE ANNOUNCEMENT OF THE

TRADE PLAN FOR THE SECOND HALF OF 1977 WAS HERALDED IN THE KOREAN PRESS AS THE BEGINNING OF A SERIES OF IMPORT LIBERALIZATION PROGRAMS. THE ROKG HAS STATED THAT IT HOPES THE LIBERALIZATION OF 22 ITEMS IN THIS LATES TRADE PLAN AND OTHERS TO FOLLOW WILL CUSHION DOMESTIC PRICE INCREASES AND OFFSET GROWING PROTECTIONISM WORLDWIDE. OUR PRELIMINARY ANALYSIS OF THESE CHANGES AND THEIR CONSEQUENCES FOR US TRADE INTERESTS IS COVERED IN SEPTEL. AN AIRGRAM WITH FURTHER DETAIL WILL FOLLOW LATER. SPETEL ALSO REPORTS ON THE CURRENT STATUS OF ROKG PLANS FOR A LONGER RANGE IMPORT LIBERALIZATION PROGRAM. AS WE HAVE PREVIOUSLY POINTED OUT, THE DEPTH, COMPLEXITY AND FREQUENT CHANGES IN THE IMPORT LICENSING SYSTEM ARE SIGNIFICANT NON-TARIFF BARRIERS IN THEMSELVES. IN ADDITION, THE TRADE PLAN IS NOT PUBLISHED IN ENGLISH WHICH RESTRICTS THE FREE FLOW OF INFORMATION CONCERNING TRADE RESTRICTIONS.

AS REPORTED IN SEPTEL, THE MINISTRY OF COMMERCE AND INDUSTRY (MCI) IS ALSO CONSIDERING POSSIBLE ADMINISTRATIVE MEASURES AIMED AT NARROWING KOREA'S TRADE IMBALANCE WITH JAPAN AND REDUCING KOREA'S TRADE SURPLUSES WITH OTHER TRADING PARTNERS, INCLUDING THE US. WE WILL REPORT FURTHER ON THIS SUBJECT AS CIRCUMSTANCES DICTATE.

C) VALUE ADDED TAX - THE VALUE ADDED TAX (VAT) HAS BEEN APPROVED AND WILL GO INTO EFFECT JULY 1, CONFIDENTIAL

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1977 (SEE 76 SEOUL 7307, 14 SEPTEMBER 1976). THE VAT WILL REPLACE 11 EXISTING INDIRECT TAXES, EXCEPT THOSE ON LIQUOR AND TELEPHONE SERVICES, AND A STAMP DUTY. THE BASIC RATE OF 13 PCT WILL BE ADJUSTABLE BY 3 PCT UP OR DOWN RATHER THAN 5 PCT AS EARLIER PROPOSED AND REPORTED (76 SEOUL 7307). THE ROKG HAS SET THE INITIAL RATE OF 10 PCT. AT THE SAME TIME A SPECIAL CONSUMPTION (EXCISE) TAX WILL GO INTO EFFECT FOR A GROUP OF CONSUMER PRODUCTS AND SERVICES, REPLACING A BASICALLY SIMILAR SCHEDULE OF EXISTING TAXES KNOWN GENERALLY AS COMMODITY TAXES. ITS PURPOSE IS TO Dampen CONSUMER PURCHASE OF LUXURY GOODS. BECAUSE THE VAT WILL BE APPLIED TO IMPORTS ON A C.I.F.F. BASIS, IT MAY HAVE MORE EFFECT ON AMERICAN GOODS THAN THOSE FROM NEARBY COUNTRIES, BECAUSE FREIGHT DIFFERENTIALS WILL TAKE ON ADDED WEIGHT. THE BANK OF KOREA NO LONGER PREPARES A BREAK-OUT BY COUNTRY OF FREIGHT AND INSURANCE COSTS FOR KOREA'S IMPORTS, BUT WE DO HAVE SOME DATA SHOWING THAT THE FREIGHT AND INSURANCE COSTS FOR IMPORTS FROM THE US

AVERAGED ABOUT 15 PCT AS A RATION OF F.O.F.B. VALUE IN 171-72, AS COMPARED TO 7.5 PERCENT FOR IMPORTS FROM JAPAN. USING THOSE FIGURES AS APPROXIMATIONS OF THE CURRENT DIFFERENTIAL IN AVERAGE FREIGHT AND INSURANCE COSTS FOR IMPORTS FROM THE US AS COMPARED TO JAPAN, A TAX OF 13 PCT ON FREIGHT AND INSURANCE ADDS AN AVERAGE OF 1.98 PCT AS A PERCENT OF F.O.B. VALUE TO THE COSTS OF IMPORTS FROM THE US AS CONTRASTED WITH AN AVERAGE OF 0.98 PCT FOR IMPORTS FROM JAPAN, OR A DIFFERENCE OF ABOUT 1 PCT AS A PERCENT OF F.O.B. VALUE. THIS COME ON TOP OF THE SIMILAR EFFECT THAT OCCURS BECAUSE KOREA'S TARIFF RATES ALSO ARE ASSESSED ON C.I.F. VALUE.

VAT WILL NOT APPLY TO GOODS PROUCED FOR EXPORT; BUT, SINCE THIS WAS EQUALLY TRUE OF MOST OF THE INDIRECT TAXES IT IS REPLACING, THE EFFECT ON EXPORT PRODUCTON CONFIDENTIAL

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COSTS WILL BE VERY MARGINAL.

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FM AMEMBASSY SEOUL  
TO SECSTATE WASHDC 4481  
INFO USDOC WASHDC

C O N F I D E N T I A L SECTION 2 OF 3 SEOUL 4941

D) DRAWBACK SYSTEM - THE OPERATION OF THE DRAW-  
BACK SYSTEM IS ESSENTIALLY AS DESCRIBED IN 75 SEOUL  
5185. THE GRADUAL REDUCTION OF THE MAXIMUM ACCEPTABLE  
MATURITY FOR PROMISSORY NOTES IN LIEU OF TARIFF PAYMENT  
IS BEING CARRIED OUT ACCORDING TO THE FOLLOWING SCHEDULE:

FRM JULY 1, 1976 TO JUNE 30, 1977, THREE MONTHS: FROM JULY 1, 1977 TO JUNE 30, 1978, TWO MONTHS. BEGINNING JULY 1, 1978, IMPORTERS WILL BE REQUIRED TO PAY THE TARIFF IN CASH AT TIME OF CUSTOMS CLEARANCE. SEOUL 5185 WAS INCORRECT IN ONE RESPECT. THE DRAWBACK SYSTEM WAS APPLIED TO ALL IMPORTS OF RAW MATERIALS FOR EXPORTS FROM ITS INTRODUCTION. THE DISTINCTION BETWEEN THE 356 CATEGORIES MENTIONED IN THAT CABLE AND OTHER RAW MATERIALS FOR EXPORT, WE HAVE SINCE LEARNED, WAS MERELY THAT THE MECHANICS OF THE SYSTEM WOULD OPERATE SOMEWHAT DIFFERENTLY FOR THE TWO GROUPS UNTIL MORE DATA COULD BE ASSEMBLED FOR THE LATTER GROUP. THAT DISTINCTION HAS NO BEARING ON THE IMPACT OF THE SYSTEM. THE IMPACT OF THE SYSTEM IN ADDING TO IMPORT COSTS IS SIMILAR TO THE IMPACT OF THE PRIOR IMPORT DEPOSIT SYSTEM AS DESCRIBED IN 76 SEOUL A-177, SINCE THE IMPORTER/EXPORTER IS, IN EFFECT, PUTTING UP A TEMPORARY DEPOSIT WHEN HE PAYS THE TARIFF, WITH THE DEPOSIT RETURNED WHEN THE GOOD IS EXPORTED. THE LEVEL OF THIS "DEPOSIT" IS DETERMINED

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BY THE TARIFF RATE ON THE IMPORT INVOLVED. THUS, A CHANGE IN TARIFF RATES, AS FAR AS RAW MATERIALS FOR EXPORT ARE CONCERNED, CHANGES THE "DEPOSIT" RATE. UNTIL JULY 1, 1978, THE EFFECT IS MODIFIED SLIGHTLY BY THE FACT THE IMPORTER CAN USE AN INTEREST FREE PROMISSORY NOTE TO MEET THIS OBLIGATION FOR A PART OF THE PERIOD THE GOOD IS IN KOREA. THE AIRGRAM ON THE IMPACT OF THE NEW TARIFF SYSTEM WE ARE FORWARDING NEXT WEEK (SEE ITEM "A" ABOVE) CONTAINS SOME FURTHER DISCUSSION ON THE TARIFF DRAWBACK SYSTEM AND THE ROLE OF RAW MATERIALS FOR EXPORTS IN IMPORTS FROM THE US.

E) CHANGES TO THE ROKG FOREIGN CAPITAL INDUCEMENT LAW (FCIL) ARE STILL BEING CONSIDERED; HOWEVER, NO CONSENSUS HAS BEEN REACHED AMONG THE MINISTRIES CONCERNED AND UNTIL IT IS, NO PROPOSAL WILL BE PRESENTED TO THE NATIONAL ASSEMBLY. THE PROCESS OF REACHING CONSENSUS MAY TAKE TWO TO THREE YEARS. PROPOSED CHANGES TO THE FCIL WERE OUTLINED IN 76 SEOUL 3114, 27 APRIL 1976, IN 76 SEOUL A-201, 9 DECEMBER 1976, AND IN SEOUL A-67, 26 APRIL 1977. IN ESSENCE THE CHANGES BEING CONSIDERED ARE A CONSOLIDATION OF MANY INVESTMENT PROMOTION LAWS AND A REORIENTATION OF INCENTIVES TO ENCOURAGE INVESTMENTS CONSIDERED ON A PRIORITY BASIS RATHER THAN ON THE NATIONALITY OF THE INVESTOR; THAT IS, TO PROVIDE EQUAL TREATMENT TO FOREIGN AND DOMESTIC INVESTORS. SPECIFICALLY, THE ROKG WOULD IDENTIFY PROJECTS IN THREE GROUPINGS, HIGH PRIORITY, SECOND PRIORITY AND NO PRIORITY. THE FIRST GROUP WOULD RECEIVE

INCENTIVES SIMILAR TO THOSE OFFERED UNDER THE PRESENT FCIL; THE SECOND WOULD RECEIVE SOME BUT NOT ALL THE INCENTIVES, AND THE THIRD WOULD RECEIVED NO INCENTIVES. OPEN DISCUSSION OF THESE PROPOSALS APPEARS TO HAVE BEEN HALTED IN ORDER TO REDUCE UNCERTAINTY WHICH REFLECTS ADVERSELY ON THE FOREIGN INVESTMENT CLIMATE.

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F) SPECIAL LAWS GOVERNING IMPORTS - NO CHANGES.

G) PROCEDURES FOR HIRING KOREAN AGENTS. IN RESPONSE TO USDOC 8497, 7 MAY 1977, DETAILS CONCERNING APPOINTING A KOREAN AGENT WERE TRANSMITTED IN SEOUL 3998. EXCLUSIVE AGENCY AGREEMENTS ARE NOT REQUIRED BY KOREAN LAW; HOWEVER, OFFERS ISSUED BY AN EXPORTER WHO HAS NO EXCLUSIVE OFFER AGENT IN KOREA MUST BE AUTHENTICATED BY A KOREAN CONSULATE IN THE EXPORTING COUNTRY. SEE SEOUL A-42, 11 MAR 1977, FOR A DISCUSSION OF KOREA'S TRADING SYSTEM.

H) RESTRICTIONS ON TECHNICAL ASSISTANCE AGREEMENTS AND RELATED IMPORTS - RESTRICTIONS AND PROCEDURES ON TECHNICAL ASSISTANCE AGREEMENTS REMAIN UNCHANGED FROM THOSE REPORTED IN SEOUL A-002, 10 JANUARY 1977. AT THE MAY MEETING OF THE KOREA-US ECONOMIC COUNCILS IN SEOUL, THE ECONOMIC PLANNING BOARD (EPB) PRESENTED A PAPER ON ROKG FOREIGN TECHNOLOGY INDUCEMENT POLICY. THE PRESENTATION BY DIRECTOR KIM KYUNG-KI, INVESTMENT PROMOTION BUREAU, 30?, REFLECTS A CHANGE IN EMPHASIS BY THE ROKG IN THAT THE DESIRABILITY OF IMPORTING TECHNOLOGY IN THE PAST WAS UNDERESTIMATED BECAUSE OF THE STRONGLY FELT NEED FOR FOREIGN CAPITAL. ACCORDING TO KIM, THE ROKG IS NOW TAKING A MORE POSITIVE ATTITUDE TOWARD IMPORTS OF FOREIGN TECHNOLOGY (COPY OF SPEECH BEING AIR POUCHED). AS EXPECTED, THE PREFERRED TECHNOLOGIES INCLUDE THOSE LEADING TO NEW EXPORT MARKETS AND THOSE WHICH REDUCE COSTS FOR CAPITAL GOODS INDUSTRY. THESE CHANGES COULD OFFER SIGNIFICANT OPPORTUNITIES TO US BUSINESS SEEKING TO PENETRATE THE KOREAN MARKET.

I) ALTHOUGH OF CONCERN TO FOREIGN INVESTORS, THE IMPACT OF US CONCERN FOR HUMAN RIGHTS, ALLEGED BRIBERY OF US POLITICIANS AND PENDING US TROOP WITHDRAWALS HAS NOT SIGNIFICANTLY AFFECTED THE KOREAN

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INVESTMENT CLIMATE. IN THEMSELVES THESE ISSUES DO NOT SEEM SUFFICIENT TO CAUSE FIRMS TO AVOID INVESTMENTS IN KOREA. HOWEVER, THESE ISSUES COMBINED WITH INCREASED DIFFICULTIES IN DOING BUSINESS OR A SIGNIFICANT DOWNTURN IN ECONOMIC ACTIVITY COULD LEAD INVESTORS TO DEFER OR CANCEL THEIR PLANS. (SEE SEOUL 4396 26 MAY 77.)

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J) OTHER ISSUES.

1) COPYRIGHTS - THE ROKG IS DRAFTING AN AMENDMENT TO THE ROK COPYRIGHT LAW. WE WILL ATTEMPT TO DETERMINE THE CHANGES AND THEIR IMPACT AND WILL REPORT AS SOON AS POSSIBLE.

2) INSURANCE COMPANIES - SEVERAL FOREIGN INSURANCE COMPANIES HAVE BEEN AUTHORIZED TO DO BUSINESS IN KOREA. THIS PREVIOUS ISSUE SEEMS TO HAVE BEEN RESOLVED (SEE SEOUL 3233, 21 APR 77).

3) PATENTS AND TRADEMARKS. THIS ISSUE REMAINS UNCHANGED FROM LAST YEAR. WE REPORTED ON THE RIGHT OF PRIORITY (SEE SEOUL 2340, 24 MARCH 77), WHICH HAS CAUSED CONCERN AMONG THE AMERICAN BUSINESS COMMUNITY IN KOREA. THE USG POSITION OF ENCOURAGING ROK PARTICIPATION IN INTERNATIONAL CONVENTIONS SHOULD BE SUPPORTED BY INCREASING ROKG EMPHASIS BEING PLACED ON TECHNICAL ASSISTANCE AGREEMENTS BY THE ROKG  
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## Message Attributes

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